

AUDITED FINANCIAL STATEMENTS

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2018

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2018

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Independent Auditors' Report

To the Board of Trustees
Oklahoma School Assurance Group
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma School Assurance Group ("OSAG"), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to OSAG's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OSAG's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OSAG as of June 30, 2018, and the changes in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter

The financial statements of OSAG as of and for the year ended June 30, 2017 were audited by other auditors whose report dated November 20, 2017 expressed an unmodified opinion on those financial statements.

Rose Rock CPAs PLLC

Edmond, Oklahoma
November 27, 2018

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2018

The following Management's Discussion and Analysis (“MD&A”) of the activities and financial performance of Oklahoma School Assurance Group (“OSAG”) provides an introduction to the financial statements for the years ended June 30, 2018 and 2017.

OSAG, established in June 1994, is an Interlocal Cooperation Act Agency of schools offering membership to public and vocational technical school districts in Oklahoma with the mission of providing efficient and economical workers' compensation services to its members.

Financial and Activity Highlights

Our operations for the years ended June 30, 2018 and 2017 resulted in increases to net position of approximately \$117,000 and \$92,000, respectively. These increases are a result of tight budget practices and investment management.

The school superintendents who preside over the OSAG program have played an integral part in the formation and critical decisions of OSAG. All member schools have a voice in OSAG, since this is a school-owned program, run by its peers and solely in business to serve Oklahoma schools.

OSAG is an inter-local and operates under the Oklahoma Open Meeting Act similar to school districts. OSAG is a member of various educational organizations and pays sponsorship to those organizations for membership. As of June 30, 2018, OSAG membership is comprised of 498 school districts.

OSAG Board of Trustees:

- | | |
|---------------------------|--|
| • Dr. John Cox (Chairman) | Superintendent – Peggs School District |
| • Dr. Keith Weldon | Superintendent – Calumet School District |
| • Chad Hance | Superintendent – Cache School District |
| • Robert Trammell | Superintendent – Cheyenne School District |
| • Tony Potts | Superintendent – Stringtown Public Schools |

OSAG Administrative Director:

- Jack Dryden

OSAG Program Administration:

- The Beckman Company

OSAG Claims Administration:

- Consolidated Benefits Resources

OSAG Accounting Firm:

- Wedel Rahill & Associates

OSAG Auditing Firm:

- Rose Rock CPAs, PLLC

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2018

OSAG Mission Statement: To provide efficient and economical workers' compensation services to Oklahoma public schools.

Overview of the Financial Statements and Financial Analysis

This report consists of Management's Discussion and Analysis (this part), the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. These statements provide financial information on OSAG as a whole.

These statements include all assets and liabilities using the accrual basis of accounting. All of the revenues and expenses are recognized when earned or incurred regardless of when cash is received or paid.

This financial report is designed to provide member school districts, creditors, and suppliers with a general overview of OSAG's finances.

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report OSAG's net position and how it has changed. Net position, the difference between assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure OSAG's financial health or position.

The following summarizes OSAG's assets, liabilities and net position as of June 30 (OSAG has no deferred outflows or inflows):

	2018	2017	2016
Assets:			
Cash and cash equivalents	\$ 2,428,443	\$ 2,845,449	\$ 6,049,248
Receivables and other assets	47,928	272,374	682,353
Investments	10,155,007	10,739,618	10,090,616
Total assets	<u>\$ 12,631,378</u>	<u>\$ 13,857,441</u>	<u>\$ 16,822,217</u>
Liabilities:			
Due to members	\$ 1,007,398	\$ 796,447	\$ 474,142
Premiums received in advance	1,307,931	1,298,616	1,284,400
Other payables	296,225	718	584
Policy and contract retention reserves	3,846,282	5,705,306	9,098,547
Total liabilities	<u>6,457,836</u>	<u>7,801,087</u>	<u>10,857,673</u>
Net position:			
Unrestricted	6,053,302	5,952,437	5,884,427
Restricted	120,240	103,917	80,117
Total net position	<u>6,173,542</u>	<u>6,056,354</u>	<u>5,964,544</u>
Total liabilities and net position	<u>\$ 12,631,378</u>	<u>\$ 13,857,441</u>	<u>\$ 16,822,217</u>

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2018

Overview of the Financial Statements and Financial Analysis, Continued

The following summarizes OSAG's Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30:

	2018	2017	2016
Operating revenues:			
Premium income	\$ 20,654,462	\$ 22,596,857	\$ 38,659,783
Operating expenses:			
Policy holders benefits, net	-	-	8,499,860
Cost of stop-loss insurance	16,195,236	18,017,681	24,436,021
Claims administration fees	1,777,317	1,816,634	2,401,669
Marketing and general consulting fees	2,052,443	2,119,150	2,471,642
Other expenses	544,799	551,159	521,612
Total operating expenses	<u>\$ 20,569,795</u>	<u>\$ 22,504,624</u>	<u>\$ 38,330,804</u>
Operating income	84,667	92,233	328,979
Net nonoperating revenue (expenses)	32,521	(423)	72,674
Change in net position	117,188	91,810	401,653
Net position, beginning of year	6,056,354	5,964,544	5,562,891
Net position, end of year	<u>\$ 6,173,542</u>	<u>\$ 6,056,354</u>	<u>\$ 5,964,544</u>

All of OSAG's operating revenue is related to the receipt of member contributions from OSAG's member school districts. OSAG's operating expenses primarily relate to claims losses, the costs associated with insurance premiums, the costs to process claims, and the costs of marketing OSAG to new entities. The net nonoperating revenue is primarily comprised of income earned on investments and net scholarship activities.

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2018

Overview of the Financial Statements and Financial Analysis, Continued

The Statements of Cash Flows

The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future cash flows, ability to meet obligations as they come due, and needs for external financing. The following summarizes OSAG's cash flows for the years ended June 30:

	2018	2017	2016
Cash provided by (used in):			
Operating activities	\$ (1,034,138)	\$ (2,554,374)	\$ 3,181,514
Noncapital financing activities	17,240	23,800	9,503
Investing activities	599,892	(673,225)	(6,651,852)
Net increase (decrease) in cash and cash equivalents	(417,006)	(3,203,799)	(3,460,835)
Cash and cash equivalents, beginning of year	2,845,449	6,049,248	9,510,083
Cash and cash equivalents, end of year	<u>\$ 2,428,443</u>	<u>\$ 2,845,449</u>	<u>\$ 6,049,248</u>

OSAG's overall liquidity decreased during the year ended June 30, 2018 primarily due to a decrease in premium income received of approximately \$2,267,000 and a decrease in cash received from claims covered by stop-loss insurance of approximately \$3,901,000, offset by a decrease in cash payments for stop-loss insurance, claims, marketing and general administrative fees, and other operating expenses of approximately \$1,935,000, and decreases in benefits paid to policyholders of approximately \$5,754,000 plus net proceeds from investment sales and maturities and related investment income of approximately \$600,000. OSAG's overall liquidity decreased during the year ended June 30, 2017 primarily due to a decrease in premium income received of approximately \$15,685,000, offset by a decrease in cash payments for stop-loss insurance, claims, marketing and general administrative fees, and other operating expenses of approximately \$7,367,000, and decreases in benefits paid to policyholders of approximately \$2,321,000 and net purchases of certificates of deposit of approximately \$673,300. OSAG's overall liquidity decreased during the year ended June 30, 2016, primarily due to an increase in investments held. OSAG purchased additional investments during the year in order to earn a better return on funds held. Cash from operations decreased slightly from prior year due to higher benefit payments to policy holders which was offset by lower cost of stop loss insurance. Cash transactions in operating activities are primarily related to receipts of member contributions for the years ended June 30, 2018, 2017 and 2016 and for the prepayment of member contributions for fiscal years 2018, 2017 and 2016, offset by insurance and management disbursements of OSAG. Cash provided by or used in investing activities relates to proceeds from the sale or maturity of investments and income earned on investments net of investment purchases.

Capital Asset and Debt Administration

OSAG had no capital asset and debt administration activity during the years ended June 30, 2018, 2017, or 2016.

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2018

Overview of the Financial Statements and Financial Analysis, Continued

Economic Factors and Premium Rates

OSAG's management considered many factors when developing the annual operating budget for the fiscal year ending June 30, 2018.

The budget for the fiscal year ending June 30, 2018 was developed based upon the following key assumptions:

- Premium contributions are based upon the cost of excess insurance quoted by CompSource Mutual plus administrative costs.
- Investment income is projected to be approximately 1 percent of the market value of total investments.
- Reinsurance premiums are expected to decrease approximately 2 percent from current levels.

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF NET POSITION

	June 30	
	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,428,443	\$ 2,845,449
Premiums receivable	45,906	-
Due from CompSource Mutual	-	272,223
Investments	7,394,642	7,858,173
Other assets	<u>2,022</u>	<u>151</u>
TOTAL CURRENT ASSETS	9,871,013	10,975,996
Investments	<u>2,760,365</u>	<u>2,881,445</u>
TOTAL ASSETS	<u>\$ 12,631,378</u>	<u>\$ 13,857,441</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Due to members	\$ 1,007,398	\$ 796,447
Due to CompSource Mutual	295,492	-
Premiums received in advance	1,307,931	1,298,616
Policy and contract retention reserves	3,846,282	2,017,345
Other payables	<u>733</u>	<u>718</u>
TOTAL CURRENT LIABILITIES	6,457,836	4,113,126
Policy and contract retention reserves, net of current portion	<u>-</u>	<u>3,687,961</u>
TOTAL LIABILITIES	<u>\$ 6,457,836</u>	<u>\$ 7,801,087</u>
NET POSITION		
Unrestricted net position	\$ 6,053,302	\$ 5,952,437
Restricted net position	<u>120,240</u>	<u>103,917</u>
TOTAL NET POSITION	<u>\$ 6,173,542</u>	<u>\$ 6,056,354</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,631,378</u>	<u>\$ 13,857,441</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Premium income	\$20,654,462	\$22,596,857
OPERATING EXPENSES		
Cost of stop-loss insurance	16,195,236	18,017,681
Claims administration fee	1,777,317	1,816,634
Marketing and general consulting fee	2,052,443	2,119,150
Professional services	315,746	314,385
Insurance expense	44,228	41,671
Membership services-seminars	3,336	22,499
Board meeting expenses	9,371	9,384
Conferences	11,414	7,638
Sponsorship fees	66,988	62,895
Postage and printing expense	9,544	10,886
Telephone	3,015	3,771
Office expenses	19,066	22,897
Travel	11,129	4,376
Consulting fees	12,984	14,830
Other	37,978	35,927
TOTAL OPERATING EXPENSES	<u>20,569,795</u>	<u>22,504,624</u>
OPERATING INCOME	<u>84,667</u>	<u>92,233</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income (loss)	15,281	(24,223)
Scholarship fundraising	25,240	27,800
Scholarship expense	(8,000)	(4,000)
NET NONOPERATING REVENUES (EXPENSES)	<u>32,521</u>	<u>(423)</u>
CHANGE IN NET POSITION	117,188	91,810
NET POSITION AT BEGINNING OF YEAR	<u>6,056,354</u>	<u>5,964,544</u>
NET POSITION AT END OF YEAR	<u>\$ 6,173,542</u>	<u>\$ 6,056,354</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premium income received	\$ 19,870,012	\$ 22,136,936
Cash received for claims covered by stop-loss insurance	1,442,263	5,343,682
Cash payments for stop-loss insurance, claims, marketing and general administrative fees and other operating expenses	(20,569,780)	(22,504,490)
Benefits payments to policy holders	<u>(1,776,633)</u>	<u>(7,530,502)</u>
NET CASH USED IN OPERATING ACTIVITIES	(1,034,138)	(2,554,374)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions from scholarship fundraising	25,240	27,800
Cash payments on scholarship expense	<u>(8,000)</u>	<u>(4,000)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	17,240	23,800
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturity of investments	9,136,860	1,237,510
Purchases of investments	(8,670,948)	(1,972,000)
Investment income received	<u>133,980</u>	<u>61,265</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>599,892</u>	<u>(673,225)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(417,006)	(3,203,799)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,845,449</u>	<u>6,049,248</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,428,443</u>	<u>\$ 2,845,449</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income	\$ 84,667	\$ 92,233
Adjustments to reconcile operating income to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Due from CompSource Mutual	272,223	409,974
Premiums receivable	(45,906)	-
Other assets	(1,871)	5
Due to members	210,951	322,305
Due to CompSource Mutual	295,492	-
Premiums received in advance	9,315	14,216
Policy and contract retention reserves	(1,859,024)	(3,393,241)
Other payables	<u>15</u>	<u>134</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,034,138)</u>	<u>\$ (2,554,374)</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Net unrealized losses on investments	<u>\$ (23,744)</u>	<u>\$ (92,823)</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Oklahoma School Assurance Group (“OSAG”) was established by an agreement with an effective date of June 1, 1994, and a duration of fifty years, unless sooner dissolved or extended. OSAG is an Interlocal Cooperation Act Agency of schools offering membership to Oklahoma public and vocational technical school districts with the mission of providing efficient and economical workers’ compensation services to its members.

OSAG has created a Workers’ Compensation Plan Fund and an Operating Fund. The purpose of the Workers’ Compensation Plan Fund is to provide workers’ compensation coverage through CompSource Mutual Insurance Company (“CompSource Mutual”) to participating school districts in the State of Oklahoma as required by the Oklahoma Workers’ Compensation Act. One basic insurance plan exists for covered employee claims of participating school districts. Covered employees include management, teachers, volunteers, and other full and part-time employees. The purpose of the Operating Fund is to provide management to the Workers’ Compensation Plan Fund. For financial statement presentation purposes, the two funds have been combined with all inter-fund activity eliminated.

All affairs of OSAG are governed by a Board of Trustees elected by and from its members. Trustee responsibilities include reviewing and ensuring compliance with OSAG’s policies and services as contemplated in its establishing agreement. For the years ended June 30, 2018 and 2017, the Board of Trustees contracted with Consolidated Benefits Resources to be the third party administrator responsible for claims processing and management for OSAG members and The Beckman Company to serve as the marketing agent and professional insurance consultant. Fees payable to Consolidated Benefits Resources and The Beckman Company are determined on a member-by-member basis at the time the risk is underwritten.

Title to all assets acquired by OSAG is vested in it. In the event of termination, such property shall belong to the then members of OSAG in equal shares. Each participating school district pays for all costs, premiums, or other fees attributable to its respective participation in any plan, policy, or service created in the establishing agreement and the service agreement with CompSource Mutual. Each school district is responsible for its obligation under any contract entered into with OSAG.

Financial Statement Presentation: OSAG’s financial statements are presented in accordance with requirements of the Governmental Accounting Standards Board (“GASB”) specific to enterprise fund activities. Under these requirements, OSAG is required to present a statement of net position classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows, using the direct method.

Basis of Accounting: For financial reporting purposes, OSAG is considered a special-purpose government engaged only in business-type activities. Accordingly, OSAG’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Revenue Recognition: Insurance contracts with member school districts are for a one-year period beginning July 1 through June 30. Premiums are determined on a member-by-member basis and are due at the beginning of each contract period and are recognized as revenue over the period of the contract. Each school district's premium is based on its loss history for the last five years with the last three years having greater significance. Premiums received in advance are amounts received in excess of amounts due and for which coverage has not yet been provided.

Each premium includes an amount designated to cover administrative expenses of OSAG, which is determined annually by the Board of Trustees.

Cash, Cash Equivalents and Other Deposits: OSAG considers all demand deposit accounts and investments with original maturities of 90 days or less, excluding money market mutual funds held in OSAG's investment portfolio, to be cash equivalents. As circumstances dictate, amounts in each fund's main checking account are swept into interest-bearing accounts that are insured or collateralized by U.S. government securities. Non-negotiable certificates of deposit with original maturities of 90 days or more are classified as investments for financial reporting purposes.

Investments: OSAG reports most types of investments at fair value in the statements of net position and reports all investment income, including changes in fair value of investments, as revenue in the statements of revenues, expenses, and changes in net position.

Investments are classified as current and noncurrent consistent with the contractual maturities of investments that mature within a year and greater than a year, respectively. All investments with no stated maturity are considered current. OSAG's investments can be liquidated and converted into cash based on management's determination; however, penalties may be incurred with an early redemption.

Due from CompSource Mutual: Due from CompSource Mutual consists of amounts due from CompSource Mutual for claim payments in excess of specified retention levels. Accounts receivable are recorded net of estimated uncollectible amounts. OSAG's receivable from CompSource Mutual was \$0 and \$272,223 at June 30, 2018 and 2017, respectively.

OSAG determines its allowance for accounts receivable by considering a number of factors, including length of time accounts receivable are past due and the previous payment history. OSAG writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the operating expenses. Based on historical information, coupled with a review of the current status of existing receivables, management of OSAG determined that an allowance for doubtful accounts at June 30, 2017 was not necessary.

Due to CompSource Mutual: Due to CompSource Mutual consists of retention claims paid by CompSource Oklahoma during the year ended June 30, 2018 for which OSAG is responsible for reimbursement. In December 2017, CompSource Mutual began paying OSAG retention claims using CompSource Mutual paper. Any OSAG retention claims paid by CompSource Mutual during the period from December 1, 2017 to June 30, 2018 are the responsibility of OSAG, and OSAG is required to reimburse CompSource Mutual for these cumulative retention payments.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Policy and Contract Retention Reserves: OSAG's liability for policy and contract retention reserves is generally limited to the prior three policy periods. Each individual member's liability is limited to its specific retention level (amount set aside each policy period to pay claims of member employees) for each policy period. Actual member claims in excess of the retention level for a policy period are covered by a stop-loss insurance agreement with CompSource Mutual (see Note D). Unused retention for a policy period accrues to the benefit of the specific member upon expiration of the three-year period. If any unused retention remains for any member, that amount will be generally be issued as a credit toward the following year's premium for active members only. At the discretion of OSAG, if at the end of the three-year period a member has significant ongoing claims, a portion of that member's unused retention may be held for payment of subsequent claim activity. Subsequent qualifying claims for a policy period in which the member's unused retention was either refunded or applied as a credit are to be paid by OSAG. Policy contracts under the first dollar coverage program (see Note E) do not have policy or contract retention reserves as all claims under this program have been ceded to CompSource Mutual.

Classification of Revenues: OSAG has classified its revenues as either operating or nonoperating revenues. Operating revenues include transactions that constitute OSAG's principal ongoing operations, such as premiums. Nonoperating revenues consist of other revenue sources that are defined as nonoperating revenues, such as contributions and investment income.

Net Position: OSAG's net position is classified as follows.

Unrestricted: Unrestricted net position represents resources derived from member premiums. These resources are used for transactions relating to the operations of OSAG and may be used at the discretion of the Board of Trustees to meet current expenses.

Restricted Net Position: Restricted expendable net position is derived from funds raised for the Gene Keith Scholarship. These resources are used for scholarships awarded annually by OSAG.

Insurance Premiums: Insurance premiums, which are determined on a member-by-member basis and include administrative fees and excess insurance premiums, are recognized as income ratably over the terms of the policies.

Tax Status: OSAG is a public entity organized under the laws of the state of Oklahoma. The income it earns in the exercise of its essential government function and which accrues to political subdivisions of the State of Oklahoma is exempt from federal income taxes under Internal Revenue Code Section 115(a).

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates, and such amounts could be significant.

Subsequent Events: Subsequent events have been evaluated through November 27, 2018 which is the date the financial statements were available to be issued.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk: Custodial credit risk is the risk that in the event of bank failure, OSAG will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized. Investments are exposed to custodial credit risk if they are uninsured, are not registered in OSAG's name, or are held by a counterparty or the counterparty's trust department but not in OSAG's name. OSAG does not have a written policy for custodial credit risk. However, OSAG's management requires that all of its cash deposits and investments be covered by federal deposit insurance or fully collateralized by U.S. Government securities. As of June 30, 2018 and 2017, OSAG had cash on deposit with financial institutions of approximately \$2,435,000 and \$2,833,000, respectively, which is either insured via federal deposit insurance, collateralized with securities held by pledging financial institutions, or swept into sweep accounts, which are collateralized with U.S. Treasuries. Also, as of June 30, 2018 and 2017, OSAG had approximately (a) \$3,822,000 and \$3,938,000, respectively, of certificates of deposit, which are insured via federal deposit insurance, (b) \$747,000 and \$1,497,000, respectively, of U.S. Government securities-based money market mutual funds, which are primarily invested in U.S. Federal Agencies and U.S. Treasury obligations and held in OSAG's name, (c) \$2,711,000 and \$5,214,000, respectively, in a pooled investment program, which is primarily invested in United States Government agencies or sponsored entities, and (d) \$2,768,000 and \$0, respectively, of U.S. Treasury Bonds. As of June 30, 2018 and 2017, approximately \$107,000 and \$90,000, respectively, in funds held for the Gene Keith Scholarship are invested in exchange-traded funds based on an allocation approved by the board with an additional \$13,000 and \$12,000, respectively, of cash on deposit with financial institutions covered by federal deposit insurance or fully collateralized by U.S. Government securities.

Credit Risk: As all of OSAG's investments are insured via federal deposit insurance or invested in funds backed by U.S. obligations, none of OSAG's deposits are considered to have any credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. OSAG discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments by date range as outlined in the following table. Although it does not have a written policy to address interest rate risk, OSAG's management and Board of Trustees monitor its investment performance on an ongoing basis to limit OSAG's interest rate risk. As of June 30, 2018 and 2017, all of OSAG's investments were short-term liquid investments or certificates of deposits.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

NOTE B--DEPOSITS AND INVESTMENTS, CONTINUED

Maturities of investments are as follows:

Investment Type	June 30, 2018		
	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
Certificates of deposit	\$ 3,821,736	\$ 1,061,371	\$ 2,760,365

Investment Type	June 30, 2017		
	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
Certificates of deposit	\$ 3,938,396	\$ 1,056,951	\$ 2,881,445

Concentration of Investment Credit Risk: Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percentage of total investments of OSAG (any over 5 percent are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this consideration. As of June 30, 2018, a majority of OSAG's investments in certificates of deposit were held with one financial institution holding a total of approximately 35 percent of total investments and were fully covered by federal deposit insurance. As of June 30, 2017, a majority of OSAG's investments in certificates of deposit were held with one financial institution holding a total of approximately 32 percent of total investments and were fully covered by federal deposit insurance. At June 30, 2018 and 2017, OSAG has no individual investments in any issuer exceeding 5 percent of total investments.

Fair Value Measurements: The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Fund has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

NOTE B--DEPOSITS AND INVESTMENTS, CONTINUED

Fair Value Measurements, Continued:

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Certificates of deposits (brokered): Valued using observable inputs from active or inactive markets for the exact or similar securities.

Money market, mutual funds and U.S. Government securities-based mutual funds: Valued at quoted prices for identical securities in active markets.

U.S. Treasuries: Valued at quoted prices for identical securities in active markets.

Certificates of deposits (non-brokered): Measured at amortized cost.

Investments at fair value consist of the following at June 30:

	2018			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (brokered)	\$ -	\$ 3,576,736	\$ -	\$ 3,576,736
Mutual funds	107,428	-	-	107,428
U.S. Treasuries	2,768,076	-	-	2,768,076
U.S. Government securities-based mutual funds	746,582	-	-	746,582
Total Investments by fair value level	<u>\$ 3,622,086</u>	<u>\$ 3,576,736</u>	<u>\$ -</u>	<u>7,198,822</u>
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				245,000
Pooled investment funds *				2,711,185
Total investments				<u>\$ 10,155,007</u>

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

NOTE B--DEPOSITS AND INVESTMENTS, CONTINUED

Fair Value Measurements, Continued:

	2017			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (brokered)	\$ -	\$ 3,445,896	\$ -	\$ 3,445,896
Mutual funds	90,318	-	-	90,318
U.S. Government securities-based mutual funds	1,497,171	-	-	1,497,171
Total Investments by fair value level	<u>\$ 1,587,489</u>	<u>\$ 3,445,896</u>	<u>\$ -</u>	<u>5,033,385</u>
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				492,500
Pooled investment funds *				5,213,733
Total investments				<u>\$ 10,739,618</u>

* - Certain assets have been presented as part of investments on the statements of net position but are not classified in the fair value hierarchy. The amounts in this table are intended to permit reconciliation of the fair value of investments in the fair value hierarchy to the amounts presented in the statements of net position.

Pooled investment funds consist solely of one fund invested in an array of direct obligation bonds of the United States Government, its agencies, instrumentalities or sponsored entities. This fund is valued using the net asset value (“NAV”) of the pool. OSAG has no unfunded commitments related to this investment type. Shares are redeemable weekly at the NAV at the time of redemption.

NOTE C--POLICY AND CONTRACT RETENTION

Policy and contract retention reserves provide for reported claims on a case-by-case basis. Policy and contract retention reserves not required to settle claims will be used to reduce future premium costs of the member.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

NOTE C--POLICY AND CONTRACT RETENTION, CONTINUED

The following reconciles the changes in aggregate policy and contract retention liabilities for the years ended June 30:

	2018	2017
Policy and contract retention reserves at beginning of year	\$ 5,705,306	\$ 9,098,547
Claims covered under stop-loss contracts	1,214,173	4,933,708
Benefit payments to policyholders by OSAG	(1,776,633)	(7,530,502)
Benefit payments to policyholders by CompSource Oklahoma to be reimbured by OSAG	(289,166)	-
Accrued refunds to qualifying members	(1,007,398)	(796,447)
Policy and contract retention reserves at end of year	<u>\$ 3,846,282</u>	<u>\$ 5,705,306</u>
Current portion of policy and contract retention reserves	<u>\$ 3,846,282</u>	<u>\$ 2,017,345</u>

At June 30, 2018 and 2017, total policy and contract retention reserves approximated the aggregate amount of unused member retention levels. The following is a summary of the liability by year:

Policy Year	2018	2017
2016	\$ 3,200,987	\$ 3,907,903
2015	641,232	1,793,340
2014	-	-
2013	-	-
2012	2,175	2,175
2011 and prior	1,888	1,888
	<u>\$ 3,846,282</u>	<u>\$ 5,705,306</u>

Although the three-year period for the 2015 policy expired on June 30, 2017, the 2015 policy and contract retention reserves at June 30, 2018 include reserves for certain members that were not refunded due to significant ongoing claim activity. These reserves are expected to be reduced by subsequent claim activity. Any unused retention reserves for these members that remain after the related claims have been closed are expected to be refunded or applied to future premiums.

Unused retention refunded to qualifying members for the policy year ended June 30, 2015 totaled \$1,007,398 to be applied to fiscal year 2019 premiums, or to satisfy subsequently incurred claims.

Unused retention refunded to qualifying members for the policy year ended June 30, 2014 totaled \$796,477 to be applied to fiscal year 2018 premiums, or to satisfy subsequently incurred claims.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

NOTE D--STOP-LOSS INSURANCE

OSAG's Workers' Compensation Plan has contracted with CompSource Mutual to provide coverage within a policy period when an individual member's claims exceed its specific retention level. As outlined in the stop-loss agreement, each individual member's liability for claim losses is limited to its respective retention level for the specific policy period.

NOTE E--FIRST DOLLAR COVERAGE

First dollar coverage insurance became available to group members on July 1, 2002. Under the first dollar coverage program, premiums are calculated each year, and CompSource Mutual places an initial amount in escrow in the name of OSAG in order to fund a claims payment account for the first dollar coverage group. OSAG, through Consolidated Benefits Resources, bills CompSource Mutual on a monthly basis for claim payments made in the preceding month. All monies remaining in escrow and not utilized by OSAG will be returned to CompSource Mutual upon request. Starting with the 2017 policy year, all OSAG members are participating in the first dollar coverage program.

First dollar coverage groups are eligible for performance rebates based upon loss performance ratios. The loss performance ratios are calculated eighteen months after the inception date of each policy. The calculation is made by CompSource Mutual using loss development factors and trend factors to incurred losses. If an individual member achieves a loss ratio less than 80 percent, that member is entitled to a 5 percent rebate of the premium paid. If the loss ratio is less than 70 percent, the member is entitled to a rebate of 10 percent of premium paid. Rebates will only be made to individual members if the group as a whole achieves a loss ratio less than 100 percent developed and trended above, eighteen months after inception of policy period. Rebates earned by members, which are due from CompSource Mutual, are considered agency transactions with any amounts received by OSAG being owed to OSAG members who participated in the first dollar coverage program. During the year ended June 30, 2018, OSAG did not receive any rebates from CompSource Mutual and no liability was recorded at June 30, 2018.

NOTE F--CONTINGENCY

The insurance agreements with CompSource Mutual minimize losses that could arise from excess workers' compensation claims or those of an unusual nature. Although the ceding of insurance does not discharge OSAG from its primary responsibility to its member school districts, the insurance company that provides the stop-loss coverage assumes the related liability when an individual member's claims exceed its specific retention level within a policy period.

For accounting purposes, it is the practice of the original insurer, to the extent of the coverage ceded, to treat such risks as though they are not liable. Failure of the stop-loss carrier to honor its obligation could result in losses to OSAG. OSAG's management evaluates the financial condition of its carrier to minimize its exposure to significant losses and believes the carrier presently used is financially sound and will be able to meet its contractual obligations.